

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Release copies to District

Person to Contact:

Date

Telephone Number

Surname

Refer Reply to:

Date:

DO: Cincinnati  
EIN: [REDACTED]

Dear Applicant:

This is in reply to your application for recognition of exemption under section 501(c)(6) of the Internal Revenue Code.

We have reviewed the information you have submitted and have concluded that you do not qualify for exemption under section 501(c)(6) of the Code because your primary purpose is to perform particular services for your members.

The information you have submitted indicates that you were established for the purpose of promoting and encouraging improvements in medical cost management through direct contracting with medical providers. In order to accomplish these purposes you coordinate efforts on behalf of your members to find medical providers or medical service providers which will contract directly with your members to provide medical services. To date you have completed contract negotiations with a durable medical equipment company and a physical therapy practice. You are continuing discussions with other health care providers. You indicate that by negotiating directly you are eliminating the middle man mark-up ordinarily charged by third parties such as health maintenance organizations and preferred providers organizations.

You are a membership organization comprised of various companies located in the [REDACTED] area which maintain healthcare plans for their employees. You are supported entirely by membership dues.

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. The activities of the organization must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business

Re: [REDACTED]

of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining is not a business league.

Rev. Rul. 68-264, 1968-1 C.B. 264 defines a particular service for the purposes of section 501(c)(6) of the Code as being an activity that serves as a convenience or an economy to the members of the organization in the operation of their businesses.

Rev. Rul. 74-81, 1974-1 C.B. 135 holds that a nonprofit organization formed to promote the business welfare and interests of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance which was underwritten by a private insurance company is not entitled to exemption under section 501(c)(6) of the Code.

Rev. Rul. 81-174, 1981-1 C.B. 336 holds that a nonprofit association of insurance companies that provides medical malpractice insurance to health care providers is not exempt under section 501(c)(6) of the Code. The organization is operating in a manner similar to a business ordinarily carried on for profit and also serves as an economy or convenience to its members in providing necessary protection to its policyholders.

The information you have submitted establishes that you were established to obtain savings for your members by negotiating, on their behalf, with medical care providers. In Rev. Rul. 74-81 the Service recognized that providing group workmen's compensation insurance for members through a private insurance company relieves the members of the obligation of obtaining this insurance on an individual basis. This serves as an economy and a convenience to them in performing their individual business, a particular service within the meaning of section 501(c)(6). Hence the organization did not qualify under section 501(c)(6) of the Code. In Rev. Rul. 81-174 the service recognized that an organization operating a mutual medical malpractice insurance fund is both providing a particular service to its members and also operating in a manner similar to a business carried on for profit. Therefore, it also did not qualify for exemption under section 501(c)(6).

Similarly, by providing your members a vehicle to enable them to meet the requirements of the health care plans they offer their employees you are performing an activity on their behalf that they would otherwise have to undertake. This serves as an economy or a convenience to them in the operation of their businesses. We recognize that you do not provide insurance directly. However, the principles set forth in Rev. Ruls. 74-81

Re: [REDACTED]

and 81-174 are applicable and you do not qualify for exemption under section 501(c)(6) of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, any questions about your federal income tax status or the filing of tax returns should be addressed to that office.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: [REDACTED], Room [REDACTED]. These symbols do not refer to your case but rather to its location.

cc: DO, Cincinnati

ATTN: [REDACTED]

Sincerely yours,

[REDACTED]  
[REDACTED]  
Chief, Exempt Organizations  
Rulings Branch 4

[REDACTED]

8/8/12

[REDACTED]  
[REDACTED]

9/17/12